

Message Text

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ACTION EUR-25

INFO OCT-01 FEA-02 SCI-06 ISO-00 AID-20 CEA-02 CIAE-00

COME-00 EB-11 EA-11 FRB-02 INR-10 IO-14 NEA-11

NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 SS-20 NSC-10 STR-08 AGR-20 INT-08 DRC-01

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P R 031300Z FEB 74

FM USMISSION OECD PARIS

TO SECSTATE WASHDC PRIORITY 1728

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

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STATE ALSO FOR T/IEP

DEPT PASS CEA, FRB, TREAS, CIEP

E.O. 11652: N/A

TAGS: ENRG, ECON, OECD

SUBJECT: ENERGY: OECD FORECASTS FOR BIG SEVEN ECONOMIES

REF: (A) OECD 2896

(B) OECD 2060

(C) CPE (74)2

1. SUMMARY: OECD SECRETARIAT HAS UPDATED ITS FORECASTS IN PREPARATION FOR ECONOMIC POLICY COMMITTEE MEETING FEB. 18-19. REFDOK CONTAINS LATEST ASSESSMENT OF 1974 ECONOMIC PROSPECTS FOR US, JAPAN, GERMANY, FRANCE, ITALY, U.K., AND CANADA. THESE ARE SUMMARIZED BELOW, AND SHOULD BE READ IN CONJUNCTION WITH REF A WHICH GIVES LATEST ESTIMATES OF GNP GROWTH, CONSUMER PRICES, GNP DEFLATORS, AND CURRENT ACCOUNT BALANCES. MAIN CHANGE IN FORECASTS SINCE MID-JANUARY IS MORE PESSIMISTIC OUTLOOK FOR US AND UK. END SUMMARY.

2. UNITED STATES: SECRETARIAT HAS REASSESSED OUTLOOK FOR US ECONOMY AND NOW MAKES "OPTIMISTIC" FORECAST OF ZERO GROWTH IN REAL GNP FOR 1974. LATEST ASSESMENT MORE PESSIMISTIC THAN PRELIMINARY FIGURES ISSUED JANUARY 23, WHEN GNP EXPECTED GROW BY ONE PERCENT. ACCORDING TO FREDERICK KLAU OF ECONOMIC PROSPECTS DIVISION, DOWNWARD REVISIONS ARE BASED ON LOW FOURTH QUARTER 1973 GROWTH OF OUTPUT, WEAKNESS OF FINAL DEMAND ELEMENTS, AND RECENT INCREASES IN INVENTORY ACCUMULATION. SECRETARIAT SEES WEAK DEMAND OUTLOOK FOR FIRST HALF 1974 FOLLOWED BY SLIGHT RECOVERY IN SECOND HALF. HOUSING DEMAND EXPECTED TO DECLINE STILL FURTHER, WITH POSSIBLE TURNAROUND AT MID-YEAR; AUTOMOBILE DEMAND WILL BE DOWN UNTIL PRODUCTION FACILITES CAN BE CONVERTED TO SMALLER CARS; SAVINGS RATIOS WILL RISE FURTHER, PARTLY DUE TO UNSATISFIED DEMAND FOR SMALL CARS; LIMITED OFFICIAL USE

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AND STRONGER INVENTORY POSITIONS WILL HAVE FURTHER DEPRESSIVE EFFECTS ON DEMAND. MAIN ELEMENTS OF STRENGTH WILL BE BUSINESS FIXED INVESTMENT, EXPORT GROWTH, AND POSSIBLY STATE AND LOCAL GOVERNMENT EXPENDITURES. SECRETARIAT RECOMMENDS THAT "GIVEN THE LIKELIHOOD OF A CONSIDERABLE MARGIN OF SLACK BY MID-YEAR, IT MAY BE PREFERABLE FOR POLICY TO MORE TO A RATHER MORE EXPANSIONARY STANCE".

3. CONSUMER PRICES EXPECTED TO INCREASE AT ACCELERATING RATE UNDER COMBINED INFLUENCE OF HIGHER OIL PRICES, RELAXATION OF PRICE CONTROLS, AND STRONG WAGE PRESSURES. SECRETARIAT RECOMMENDS THAT "A CERTAIN DEGREE OF PRICE AND WAGE CONTROLS" BE MAINTAINED.

4. ON EXTERNAL SIDE, SECRETARIAT SEES STRONG GROWTH OF EXPORTS IN VOLUME TERMS, WHILE IMPORTS REMAIN DEPRESSED BY SLUGGISH DOMESTIC ECONOMY. HOWEVER, IN VALUE TERMS, OIL PRICE RISE IS EXPECTED TO PRODUCE \$4 BILLION DEFICIT ON CURRENT ACCOUNT, WHICH SECRETARIAT FEELS US SHOULD NOT TRY TO AVOID IN VIEW OF EXPECTED LARGE CAPITAL INFLOWS FROM OIL PRODUCING NATIONS.

5. JAPAN: SECRETARIAT FORECASTS MARKED SLOWDOWN IN GNP GROWTH IN FIRST HALF FOLLOWED BY MODERATE ACCELERATION IN SECOND HALF, ASSUMING INVESTMENT DEMAND RECOVERS AND SAVINGS RATIOS DO NOT INCREASE. CURRENT WEAKNESS OF INVESTMENT DEMAND LARGELY ATTRIBUTABLE TO RESTRICTIVE MONETARY POLICIES NEEDED TO CONTROL INFLATION. CONSUMER PRICES NOW RISING AT ABOUT 20 PERCENT ANNUAL RATE, AND ARE EXPECTED TO CONTINUE RAPID RISE IN 1974. MAIN PROBLEM FOR POLICY IS TO CONTAIN INFLATION WITHOUT PRODUCING EXCESSIVE SLOWDOWN IN GROWTH OF DOMESTIC DEMAND. SECRETARIAT CONSIDERS PRESENT MEASURE MORE LIKELY TO PRODUCE SLOWDOWN IN DEMAND THAN TO LEAD QUICKLY TO DECELERATION OF PRICE INCREASES. IT SUGGESTS THAT "SOME FORM OF PRICE AND INCOMES POLICY MAY BE NECESSARY TO PRODUCE ANY IMPORTANT EARLY ATTENUATION OF THE PRICE-WAGE SPIRAL". SECRETARIAT ALSO BELIEVES THAT DEMAND RESTRAINT SHOULD BE RELAXED SELECTIVELY DURING 1974, FOLLOWING SIMILAR INITIATIVES LIMITED OFFICIAL USE

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BY OTHER OECD COUNTRIES.

6. GERMANY: SECRETARIAT SEES WEAK DEMAND OUTLOOK IN GERMANY IN FIRST HALF OF 1974, WITH DEFLATIONARY EFFECTS OF OIL PRICE RISE COINCIDING WITH CYCLICAL DOWNTURN IN DOMESTIC ECONOMY. BUSINESS FIXED INVESTMENT AND HOUSING CONSTRUCTION EXPECTED TO REMAIN WEAK, WHILE PUBLIC INVESTMENT MAY ACCELERATE. PRICES EXPECTED TO RISE AT 9-10 PERCENT ANNUAL RATE DURING FIRST HALF, WHILE REAL GNP GROWS AT ONLY ONE PERCENT RATE. SECRETARIAT WELCOMES RECENT RELAXATION OF DEMAND RESTRAINT AND SUGGESTS THAT FURTHER STIMULATIVE MEASURES MAY BE DESIREABLE. WITH ITS STRONG EXTERNAL POSITION, GERMANY SHOULD TAKE LEAD IN SHIFTING TO MORE EXPANSIONARY POLICIES WHICH MAY WELL BE REQUIRED THROUGHOUT OECD

AREA. SECRETARIAT SUGGESTS THAT DETERIORATION IN
GERMAN CURRENT ACCOUNT BY MORE THAN AMOUNT ATTRIBUTABLE
TO OIL PRICE RISE WOULD HELP REDUCE NON-OIL DEFICITS
OF OTHER OECD COUNTRIES.

7. FRANCE: GROWTH OF OUTPUT EXPECTED TO SLOW TO 4.25
PERCENT ANNUAL RATE IN 1974 DUE PRIMARILY TO EXPECTED
DEFLATIONARY IMPACT ON DOMESTIC DEMAND OF INCREASED
ENERGY PRICES, AND TO SUBSTANTIAL WEAKENING OF FOREIGN
DEMAND FOR FRENCH EXPORTS. GENERAL CLIMATE OF UN-
CERTAINTY EXPECTED TO AFFECT RESIDENTIAL CONSTRUCTION
AND BUSINESS INVESTMENT, ALTHOUGH IMPACT ON LATTER MAY
BE DELAYED DUE TO STRONG ORDER BOOKS AT START OF 1974.

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INFO OCT-01 FEA-02 SCI-06 ISO-00 AID-20 CEA-02 CIAE-00

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FRENCH DECISION TO FLOAT FRANC NOT EXPECTED TO CAUSE IMMEDIATE IMPROVEMENT IN EXPORT PERFORMANCE, AND IN FACT TERMS OF TRADE MAY WORSEN IN SHORT TERM DUE TO INCREASE IN DOLLAR COSTS OF OIL IMPORTS. MAIN POLICY PROBLEM FOR FRANCE WILL BE TO RECONCILE NEED TO CONTROL INFLATION (EXPECTED TO RISE 12.75 PERCENT IN 1974) WITH NEED TO MAINTAIN SATISFACTORY LEVEL OF EMPLOYMENT. SECRETARIAT SEES LITTLE HOPE FOR MAINTAINING GROWTH THROUGH IMPROVED EXPORT PERFORMANCE, AND SUGGESTS THAT FRANCE MAY NEED TO CONSIDER SOME RELAXATION IN DEMAND RESTRAINTS.

8. ITALY: EARLIER FORECASTS OF CONTINUED STRONG EXPANSION BASED ON RAPID INCREASES IN CAPITAL INVESTMENT HAVE BEEN RADICALLY CHANGED TO REFLECT UNCERTAINTIES OF DOMESTIC DEMAND CAUSED BY OIL SITUATION. SECRETARIAT SEES DETERIORATION IN PURCHASING POWER OF HOUSEHOLDS, CONTINUED HIGH SAVINGS RATIOS, AND SOME DECLINE IN BUSINESS INVESTMENT. MAIN PROBLEM FOR POLICY WILL BE TO RESTRAIN RAPIDLY RISING PRICES AND COPE WITH SIZEABLE BALANCE OF PAYMENTS DEFICIT, WHILE ENCOURAGING RECOVERY OF OUTPUT AND INVESTMENT NEEDED TO MAINTAIN EMPLOYMENT AND HOLD OFF SOCIAL UNREST. SECRETARIAT RECOMMENDS SELECTIVE MEASURES TO ENCOURAGE PRIVATE AND PUBLIC INVESTMENT, PLUS REINFORCEMENT OF CONTROLS ON CAPITAL EXPORTS AND CONTINUED RECOURSE TO EXTERNAL BORROWING TO FINANCE DOMESTIC INVESTMENT.

9. UNITED KINGDOM: OUTLOOK FOR U.K. EVEN MORE BLEAK THAN IN MID-JANUARY, WITH GNP GROWTH FOR FIRST HALF 1974 EXPECTED DECLINE 11 PERCENT FROM SECOND HALF 1973 LEVEL. YEAR ON YEAR DECLINE IN OUTPUT WILL BE ABOUT

2.5 PERCENT BELOW 1973. SECRETARIAT EMPHASIZES CONSIDERABLE UNCERTAINTIES BEHIND ITS UK FORECASTS, WHICH ASSUME (A) NO CHANGE IN CURRENT UK POLICIES, (B) THREE DAY WORK WEEK IN JANUARY, FOUR DAY WEEK IN FEBRUARY AND RETURN TO FULL TIME WORK IN MARCH, (C) WAGE SETTLEMENTS WITH STAGE III LIMITS, AND (D) NO FURTHER LIMITED OFFICIAL USE

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INDUSTRIAL ACTION. MAIN FACTOR IN DISMAL GROWTH OUTLOOK FOR FIRST HALF WILL BE SUPPLY CONSTRAINTS IN FIRST QUARTER, WHICH WILL DETER FIXED INVESTMENT AND MAY ALSO LEAD TO DIVERSIONS OF EXPORTS TO HOME MARKETS, INCREASING IMPORTS, RUNNING DOWN OF STOCKS, AND INCREASING SAVINGS RATIOS. SECRETARIAT ALSO NOTES UNDERLYING DEMAND WEAKNESS FROM LOW LEVELS OF PUBLIC EXPENDITURE, CONFIDENCE FACTORS, AND RAPID RATES OF PRICE INFLATION. CONSUMER PRICES MAY RISE FROM 15-20 PERCENT IN 1974, AND CURRENT BALANCE IS EXPECTED TO SHOW \$8 BILLION DEFICIT AFTER OIL PRICE EFFECTS ARE INCLUDED.

10. SECRETARIAT SUGGESTS THAT UK ANTI-INFLATION POLICY MAY HAVE TO INCLUDE MODIFICATION OF STATE III TO ABOLISH ESCALATOR CLAUSES. THIS STEP MIGHT BE ACCOMPANIED BY SOME REDUCTION IN INDIRECT TAXATION TO COUNTER DEFLATIONARY IMPACT ON DEMAND. PRICE CONTROLS MIGHT ALSO BE EXPANDED TO COVER WIDER RANGE OF ITEMS. SECRETARIAT WARNS, HOWEVER, THAT STIMULUS TO DOMESTIC DEMAND SHOULD BE CAUTIOUS IN VIEW OF BOP PROBLEMS, AND UK SHOULD SEEK TO BENEFIT FROM ANY STRENGTHENING OF EXTERNAL DEMAND RESULTING FROM ADOPTION OF EXPANSIONARY POLICIES ELSEWHERE.

11. CANADA: OUTLOOK FOR CANADA CONSIDERABLY MORE FAVORABLE THAN FOR OTHER MAJOR OECD COUNTRIES BECAUSE OF POSITION AS EXPORTER OF FOOD AND ENERGY PRODUCTS, AND FAVORABLE PROSPECTS FOR IMPROVING TERMS OF TRADE. THUS DEFLATIONARY IMPACT OF OIL PRICE RISES WILL HAVE LESS EFFECT ON CANADIAN GROWTH PROSPECTS THAN ELSEWHERE IN OECD. DEMAND STIMULUS CAN BE EXPECTED FROM EXTERNAL SECTOR, AND FROM CONTINUED BUOYANCY OF BUSINESS FIXED INVESTMENT. NEVERTHELESS, PRIVATE CONSUMPTION AND HOUSING DEMAND ARE NOT EXPECTED TO BE STRONG, AND SUPPLY CONSTRAINTS MAY INHIBIT INVESTMENT PLANS. GNP GROWTH EXPECTED TO DECELERATE BELOW POTENTIAL RATE TO ABOUT 4.25 PERCENT IN 1974. SECRETARIAT SUGGESTS SOME MOVE TOWARD MORE EXPANSIONARY POLICY MIGHT BE DESIRABLE LATER IN YEAR, AND WOULD BE CONSISTENT WITH EXPECTED STRENGTH OF CANADA'S BASIC BOP POSITION.

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Message Attributes

Automatic Decaptioning: X
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Draft Date: 03 FEB 1974
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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